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State 'gave away' mineral rights, writes **Carol Paton**

ANC plays hardball to get greater mining leverage

THE African National Congress (ANC) study into state intervention in the mining sector also proposes comprehensive intervention in the steel value chain as well as mechanisms to influence the pricing of unbeneficiated minerals, monopoly-priced goods and other inputs.

The ANC's national executive committee has accepted the study — compiled by three independent researchers, former Mintek CEO and department of minerals and energy official Paul Jourdan, University of the Witwatersrand academic Pundy Pillay and the Human Sciences Research Council's Margaret Chitiga-Mabugu — as a basis for further discussion.

The study bemoans the fact that while the Mineral and Petroleum Resources Development Act transferred ownership of mineral rights to the state in 2004, it subsequently "gave away" these rights "for nothing". It proposes a tough new regime in which the state will aim to get maximum leverage out of mining by: putting restrictions on the sale of "strategic minerals"; using infrastructure tariffs as a stick to punish import parity pricers; and introducing an export tax on unbeneficiated minerals.

Should these recommendations be accepted, it would require extensive amendments to the minerals act by Mineral Resources Minister Susan Shabangu.

First in line for intervention of this sort will be the steel value chain, which the government and the ANC have long contended is choking the development of manufacturing with its use of import parity pricing.

The report recommends that Ms Shabangu classifies some minerals as "strategic minerals", on the grounds that they are "critical feedstocks" into the economy. Minerals in which SA has a dominant market share could also be "strategic".

"Strategic minerals" would have to be "exploited in an optimal manner to satisfy national, requirements, demand and pricing", says the report. Since many such minerals are supplied at "monopoly prices" at great cost to growth and job creation, "strategic minerals must be supplied into the economy as cost plus prices (reasonable return) or, at most, export parity (competitive) prices," it says.

Iron ore, coal and copper — all critical feedstocks into manufacturing — are among key minerals that could be classified as strategic.

While this would enable inputs into steel-making, for example, to be priced more competitively, it is suggested that punitive "infrastructure tariffs" be used to influence output prices. Surcharges on energy, port and rail services should be applied to "companies that practice import parity pricing", it says.

Leaving no doubt that it has Anglo American iron-ore producer Kumba and steel producer ArcelorMittal in its sights, the report states: "Iron ore should be classified as a strategic mineral and mining licences should obligate local sales at 'cost plus'. Local customers, for example, ArcelorMittal SA, should likewise be obligated to apply export parity prices on their products."

Turning to Kumba, it suggests that Anglo American be "forced to reduce its share to below 50% 'in the public interest' ", which could possibly be done through an amendment to the constitution.

A further measure proposed to influence the price and availability of steel is a ban on the export of scrap metal, which the study says has had positive effects in China, India and Russia.

Using SA's mineral wealth as leverage to achieve better upward and downward linkages into the economy is the overarching theme of the ANC study.

Besides intervention in the steel value chain, it suggests that a similar approach could be used with regard to polymers (plastics). Polymers "are the second-most important input into manufacturing" and "are sold by Sasol into the local market at monopoly prices".

The price of coal to local manufacturers should be controlled through its classification as a strategic mineral. In return, Sasol should be obligated to apply export parity prices on the polymers it supplies into the local market.

Previous attempts by the government to compel or persuade ArcelorMital SA to lower steel prices for local manufacturers, through competition legislation and negotiations, have failed.

The new hardball approach underlines the sense within the ANC and the government that it has been too soft on industry. The ANC's economic transformation committee, which includes all key economic ministers as well as many top officials, discussed the report before it was presented to the rest of the ANC at the weekend, agreeing with many of its sentiments.

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